WEST AFRICAN REGIONAL INTEGRATION: IMPLICATIONS FOR THE TEXTILE INDUSTRY IN THE ECOWAS REGION

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for the USAID Regional Integration Seminar
Accra, Ghana
23-24 October 2002

The following paper was made possible through funds from the United States Agency for International Development (USAID) West Africa Regional Program (WARP) PCE-I-00-99-00002-00 T.O. #3

I. INTRODUCTION

The trading regime governing textiles and apparel for the past 30 years is undergoing profound changes that promise to affect the prospects of textile and apparel manufacturers worldwide. The effects will be most pronounced in the developing countries and, especially, the less-developed countries (LDCs) that seek, through development of their textile and apparel industries, a way to produce and trade their way to greater prosperity. The position of most of the countries in West Africa, which have barely begun to enter world textile and apparel markets, is most precarious. The changes that will result from the abolition of the Multifibre Arrangement (MFA) in 1994 and the expiry in 2004 of the Agreement on Textiles and Clothing (ATC) that replaced it, promise to be the most far-reaching of the lot. The abolition of the quota system at the end of 2004 will bring with it fundamental shifts in trading and investment patterns among producing and consuming nations that present great risks for those countries with fledgling industries and small shares of the world's major textile and clothing markets.

It is important to note that although this report refers variously to textiles, clothing, apparel and garments, the exclusive focus is on apparel as opposed to textiles, meaning fabric or yarn. The U.S. and Europe together imported barely $200 million worth of textiles from Sub-Saharan Africa in 2001, or 10% of the value of their clothing imports from the region.[1] With the exception of South Africa and Zimbabwe, few Sub-Saharan African countries have any kind of export-oriented textile production. Nevertheless, Africa, and particularly West Africa, have the potential to become significant exporters of fabrics and yarns. West and Central Africa together produce about 15% of the world's cotton (10% from the ECOWAS region alone), but export 90% of it as lint. Most of the observations presented in this report, especially as regards the potential impacts of greater regional integration, apply equally to all forms of export-oriented garment and textile manufacturing.

China's recent accession to the World Trade Organization (WTO), promises to increase China's dominance in the clothing and textile sector, where it is already the largest exporter. China's combination of low labor costs, huge economies of scale, and existing integration into global supply chains, represents a formidable set of advantages when set against West African economies, individually or in aggregate.

These risks have to be balanced against significant new opportunities, among which the enactment of the U.S. Africa Growth and Opportunity Act (AGOA) in 2000, and its expansion in September 2002 (referred to as "AGOA II"), may be the most important. Existing trade relationships with the European Union and new developments in the European market and its relationship with developing countries also represent substantial opportunities for West African textile and clothing producers to expand their outputs and exports. The EU and U.S. markets together import around 60% of the world's total textile and clothing exports and together represent the main current and future markets for all developing country textile and clothing manufacturers, including those in West Africa.

[1] World Trade Organization, 2002 Trade Statistics

Paradoxical though it may seem, trade-distorting protectionist measures enacted by the U.S. and Europe have constituted the main opportunity for developing countries to establish viable textile and clothing industries. The country-by-country import quotas imposed by the developed countries have caused the global textile industry to become ever more creative in its search for new ways to access its major markets. Rather than locating production wherever the main factors of production – labor, infrastructure, geography, capital - are most favorable, the industry has had to invest in countries whose main or even sole advantage is their possession of unused quota and, secondarily, preferential tariff treatment. The normal factors that motivate a company to set up a plant in a given country – again, labor and infrastructure, as well as proximity to markets, political and economic stability and favorable legal and regulatory environments – have, in the case of textile and apparel, taken a back seat to the all-important quest for market access. How else to explain the emergence of Myanmar in the 1990s as a significant clothing exporter or that an Indian-owned company based in Hong Kong was, for a time in the late 1980s and early 1990s, one of the largest single suppliers of skiwear to the Canadian market – from a factory in Sharjah staffed with workers from the Indian subcontinent? The popularity in the 1980s and 1990s of ramie, a thitherto unknown plant fibre that could be incorporated into knitted garments, was another ingenious response to quota limits on garments made with more traditional fibres.

For all that some absurdities have characterized this search for market access, many countries have done very well and become truly competitive producers. Bangladesh, Sri Lanka and Mauritius are but a few examples of countries that have derived lasting economic benefits from what started as a transient and distortionary set of advantages. The sophistication of manufacturers, buyers and intermediaries has grown exponentially as companies have developed complex production and supply chains to reap maximum benefit from the complex set of rules governing international trade in textiles and clothing.

The advent of bilateral and multilateral preferential trade agreements between the U.S. and Europe on the one hand, and developing countries individually or in regional blocs, created a new set of opportunities for developing countries to get into the game. The Lomé Convention, later supplanted by the Cotonou Agreement between the European Union and the developing countries of Africa, the Caribbean and the Pacific (the ACP countries) was one of the first such agreements, providing quota-free and duty-free access into the EU market for a variety of products including many categories of textiles and apparel. For some time the Lomé Convention and the Generalized System of Preferences (GSP), allowing substantial duty reductions for many developing country exports to the U.S. were the main concessions granted by the main clothing markets to the developing countries. In the last 15 years, however, the U.S. has established preferential trade agreements with a large number of countries and regions. These include the Caribbean Basin Initiative (CBI), the North American Free Trade Agreement (NAFTA), the Israel Free Trade Agreement, the Qualifying Industrial Zones (currently involving Israel and Jordan but soon to extend, separately, to Turkey), and AGOA I and II. The EU, for its part, has extended trade concessions to North African countries, the transitional economies of East and Central Europe, and Turkey.

AGOA represents the newest and greatest opportunity for African countries to become competitive players in the global textile and apparel industry. With potential benefits extending to 35 countries in Africa and which include quota-free and duty-free access for most textile products to the U.S. market, AGOA initially offered the potential for Africa to increase its textile exports to the United States roughly tenfold over an eight-year period, from well under $1 billion to well over $4 billion annually. The AGOA II enhancements announced in September 2002 increased the ability of most AGOA-eligible countries to source fabric and yarn from anywhere, including Asia, while also doubling the overall caps on duty-free imports from the region from 3.5% to 7% of total U.S. clothing imports.

As important as AGOA is, and as much as many countries and companies in Africa have already begun to benefit from it, it is not in itself a panacea. Since it was first mooted, AGOA has been seen to a large extent as an opportunity for African countries to develop their textile industries and to establish a foothold in the U.S. market in advance of the full abolition of quotas when the ATC expires at the end of 2004. Though the duty-free provisions of AGOA extend until 2008, with every chance that they could be renewed, the quota provisions will become meaningless when quotas no longer apply to any country. The textile provisions of AGOA were, therefore, always more likely to benefit countries with an established textile industry that could attract new investment and ramp up production and increase market share quickly. But the three-year window of opportunity during which all AGOA-eligible countries could attract new investment driven, as always, by the search for quota-free market access, offered the potential for other countries to enter the game. Having established a foothold in the U.S. market during this period, and having begun to develop a competitive textile industry, these countries could then develop further and increase their global competitiveness as the duty-free provisions provided a more durable advantage. Ideally, African countries could use AGOA to position themselves to remain competitive even as the structure of global textile trade changed, and to use the benefits derived from AGOA to capture a greater share of the European clothing market as well.

Numerous developments suggest that this is happening. Even though AGOA implementation did not get underway in earnest until the second quarter of 2001, and in spite of a recession and lower overall clothing imports in the U.S., Sub-Saharan clothing exports to the U.S. grew by over 25%, to about $1 billion. In the same period, Mexico's exports to the U.S. fell 10% and CBI exports also fell by 2.2%[2],[3] U.S. apparel imports from sub-Saharan Africa in the first six months of 2002 were up by about 21% over the

[2] *Textiles Intelligence*, June 6, 2002. Other sources estimate the increase at 28% or even 32%
[3] *2002 Second Annual Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the Africa Growth and Opportunity Act*, U.S. Department of Commerce, May 2002. The President's annual report to Congress reported that apparel imports from sub-Saharan Africa increased 28% in 2001, amounting to 1.6%, or over $1 billion, of total U.S. apparel imports

first six months of 2001.[4] Close to $500 million in new investments have been announced in connection with AGOA, with expected creation of around 100,000 new jobs.[5]

Strikingly, almost all of these new investments have taken place in Eastern and Southern Africa, particularly in Kenya, Namibia, Lesotho, Mauritius, Malawi, Swaziland and Uganda. The ECOWAS region plays host to only one significant investment, a planned $30 million factory in Senegal. Indeed, of the 20 countries that had been certified eligible for the textile and apparel provisions of AGOA as of September 2002, only 3 – Ghana, Senegal and Cape Verde – were members of ECOWAS. And of these, the first, Ghana, was not certified until March 2002. West Africa has thus effectively missed out on the first year of AGOA textile and apparel benefits. With only two years remaining until quotas disappear entirely, this gives the region a much narrower window of opportunity than most of the rest of Sub-Saharan Africa, especially in the COMESA and SADC groupings.

Similarly, of the 15 ECOWAS members, four (Burkina Faso, Gambia, Liberia and Togo) are not currently eligible for any AGOA benefits owing to political conditions in those countries, Côte d'Ivoire is under review, and Sierra Leone, though certified eligible, has had its implementation delayed pending stabilization of the political situation.

It is hard to exaggerate the importance for ECOWAS members of obtaining AGOA textile and apparel eligibility in the near term as a way of establishing a footprint in the global textile trade. Over the longer term, ECOWAS and its members need to establish a basis for creating sustainable competitive advantage as textile and apparel producers in the new dispensation that will govern global textile trade.

This report devotes a great deal of attention to AGOA. This is not to say that other opportunities for the West African textile industry are not equally attractive. Europe in particular, which is a larger market than the U.S. and geographically closer, as well as being more closely bound to West Africa by historic trade, economic and political ties, represents, over the long term, a potential market opportunity that may prove more attractive and more accessible than those presented by the U.S. market. It would be foolish for West African textile companies to ignore the European market to focus exclusively on the American market.

This report will argue, however, that AGOA represents a highly attractive and immediate opportunity for West Africa's textile industry. Several key provisions of AGOA are of a very limited duration, thus lending urgency to West African countries' efforts to obtain authorization to export textiles to the U.S. under AGOA. Perhaps most importantly, the opportunity presented by AGOA can serve as a catalyst to attract new foreign investment, which will bring with it the technology, management and production experience, and market knowledge and access that West African needs to become a competitive force in the global textile trade.

[4] U.S. International Trade Commission data
[5] *op. cit.,* 2002 Second Annual Comprehensive Report

This report explores possible reasons for ECOWAS members having lagged behind other countries in Sub-Saharan Africa in obtaining and benefiting from AGOA textile and apparel provisions, and explores a range of possible solutions to this problem. Though this lag cannot be attributed entirely to insufficient regional integration, this report contends that it is a significant contributing factor, and suggests that several concrete and achievable measures, undertaken on a regional basis, may help ECOWAS and its members to play a significant role in the future development of the textile and apparel industry, in Africa and globally.

This examination of the factors that have impeded West Africa's participation in AGOA can shed light on underlying national and regional factors that have also affected the region's ability to derive greater benefit from other preferential trade agreements such as The Lomé/Cotonou agreement. The analysis of problems related to AGOA, and the search for solutions to them, will have implications that extend far beyond AGOA itself and that could have far-reaching consequences for the long-term global competitiveness of the entire textile sector in West Africa.

II. WHY IS AGOA SO IMPORTANT?

AGOA is important, and urgent. Despite the limited time available for countries to take advantage of some of AGOA's most important provisions, many of the potential benefits from AGOA are far more sustainable.

Importance
AGOA is important because it represents a significant and immediate opportunity for African countries to obtain a substantial share of the world's largest market for clothing. It is important, too, because the market opportunity it represents has already proven its ability to attract new investment, technology and market knowledge from major international textile companies. This new investment and the skills and knowledge that accompany it, can enable the beneficiary countries to integrate themselves into world supply chains. In turn, these countries will have developed industries that can compete in European as well as in American markets. If the immediate opportunity represented by AGOA is in the U.S. market, over the longer term, the benefits from AGOA will also come to include a more competitive position for African manufacturers in European markets. As the future of the existing EU-ACP agreement becomes uncertain, and as Europe increasingly turns to regional Free Trade Areas (following the success of the EU-Mediterranean FTA, the EU is contemplating several others, including an EU-UEMOA FTA).[6]

AGOA is important too in that the U.S., even before the full implementation of AGOA, began increasing its share of Africa's clothing exports. Though the EU remains an important market for African apparel market, and has the potential to increase its

[6] "Options for Future EU-ACP Trade Relations," H-B. Solignac Lecomte, *European Centre for Development Policy Management Working Paper No. 60*, August 1998.

prominence as a destination for African apparel exports, the U.S., largely as a function of AGOA, looks set to be the major market for Africa's apparel exports for the next several years.

In spite of historic ties between several major EU members and Sub-Saharan African countries, and despite the Lomé/Cotonou preferential access, EU imports from the region have remained stagnant, while U.S. imports have increased by more than 50% since 1999. According to the WTO, the EU, which imported $79.3 billion in apparel in 2001 as against $66.4 billion for the U.S., imported roughly $960 million from sub-Saharan Africa, or 1.2% of its total imports, compared to $1.1 billion imported by the U.S. representing 1.6% of total imports. The level of EU imports from the region, meanwhile, remained virtually unchanged from the previous year, and have fallen precipitously for many countries.

For example, EU textile and garment imports from Kenya fell from €15.7 million in 1997 to €6.9 million in 2001. [7] Even at its 1997 level, this is far less than U.S. imports of $37 million in 1994 (in 1994 the U.S. imposed a temporary ban on textile imports from Kenya, owing to serious problems with illegal transshipments. When the ban was lifted in 1996, Kenyan exports to the U.S. rebounded to about $27 million and subsequently grew to about $40 million in 2000, before the implementation of AGOA[8]). Kenya is expected to export about $120 million worth of apparel to the United States in 2002.

The provisions of AGOA, especially as enhanced in AGOA II, are substantially more favorable to African clothing production than the EU-ACP agreement. Though both agreements provide for non-reciprocal duty-free and quota-free access for apparel products, the EU-ACP agreement requires that for textiles and woven products the fabric and yarn be sourced from an ACP country. The agreement also stipulates that non-ACP originating inputs can account for a maximum of 15% of the ex-works product value, and that "simple assembly" operations are excluded. Although the ability to source yarn and fabric from any country will no longer be a feature of AGOA in two years' time, AGOA does not cap the value of non-originating inputs, and it also allows many operations that under EU rules would be considered "simple assembly."

Europe in many ways appears to be focused on developing other sources of garment supply. The EU recently increased its import quotas for Vietnam by 25%, its apparel imports having risen to nearly €700 million in 2001. Vietnam looks set to export $2 billion worth of clothing this year, in spite of impending imposition of quotas by the U.S., which has seen its imports from Vietnam increase sevenfold since the beginning of 2002.[9] Tunisia and Turkey have recently taken their place in the top five clothing exporters to the E.U., with Morocco close behind.

[7] "Developing a Cotton Pipeline: Kenya Tries Taking Advantage of U.S. Duty-Free Treatment," *Emerging Textiles*, 30 September 2002
[8] U.S. International Trade Commission
[9] "EU Substantially Increases Vietnam's Quotas," *Emerging Textiles*, September 19, 2002

Europe will, of course, remain an important market for African clothing producers. AGOA may even help African countries regain some of the market share in the EU that they have lost to other countries in recent years. To the extent that AGOA spurs new industry development in Africa, this can also stimulate greater efforts by EU companies to increase sourcing from Africa. EU quotas have reached a saturation point for many clothing categories from major Asian suppliers, including Malaysia, China, India, Pakistan, Vietnam, Thailand and South Korea.[10] Even though the EU has raised quotas for many countries, including Vietnam and China, this development suggests that African countries, which benefit from quota-free access to Europe and are geographically closer than Asia, could attract new textile investment from Europe in the near term, or could use the AGOA-motivated investments now taking place as a platform from which to export more competitively into the EU.

Urgency

AGOA is urgent for two reasons:

- The full abolition of quotas at the end of 2004 and,
- The elimination, on September 30, 2004, of the provision allowing AGOA-designated LDCs to obtain duty-free treatment with products made from yarn or fabric sourced from anywhere in the world.

For roughly the next two years, African countries will continue to enjoy a preferential trade regime with respect to the U.S. that is virtually unmatched anywhere else in the world. It is no surprise that much of the AGOA-related apparel industry investment that has already come into Africa is Asian-based. The opportunity to use Africa as a platform for garment assembly using imported Asian fabric has exerted a powerful attraction on Asian companies. The garment industry is notoriously footloose, moving as market access and political or economic conditions may change. Nevertheless, the scale of many of the planned investments suggests that the investors seek to integrate Africa into their long-term production chains rather than seeking a quick return and an exit within two or three years. This suggests that investors are looking to the long term, but it is hard to discount the importance of these immediate and transient opportunities as the main initial attraction. The speed with which companies have committed to investing large sums in developing Africa's textile industry has something of a "gold rush" quality that derives its impetus from the perception that here is an opportunity never to be repeated. Though investment in the African textile sector will certainly continue long after 2004, it will probably do so at a more deliberate pace.

Sustainability

Though some of the key benefits from AGOA will expire in two years or less, AGOA itself continues until 2008. Although textile trade is meant to come under full WTO rules at the beginning of 2005, and although the WTO has raised questions as to the legality under WTO rules of some aspects of the EU-ACP arrangement, Sub-Saharan Africa is certain to continue to benefit from some form of preferential tariffs with respect to textile

[10] "China, Vietnam, India and even Pakistan are confronted with EU limits: EU Saturation Report," *Emerging Textiles*, October 10, 2002

exports to both the U.S. and Europe. In general, regional FTAs and bilateral trade agreements are legitimate under WTO rules, and their number is increasing constantly. Though the debate over trade liberalization continues, the proliferation of such agreement suggests that many policy makers recognize the importance of market access for developing countries. While trade agreements are motivated as much by geo-strategic considerations as by economics, that has always been true of foreign aid as well. If AGOA itself is let to expire in 2008, some other form of preference will almost certainly be granted to African apparel manufacturers. If African countries seize the opportunity that AGOA now presents, they can position themselves to play a more important role in the post-2004 global textile trading environment.

According to the most recent UNCTAD Trade and Development Report, tariffs have become, increasingly, the most important factor – even more important than wages – in sourcing and investment decisions in the global textile industry. It is no coincidence that the countries whose share of textile exports have increased the most have, with the exception of China, been those whose effective tariff rates are the lowest. For the U.S., average Most Favored Nation (MFN) tariffs on clothing range from about 9% to 13% for major supplier countries and regions. However, Mexico, for which the MFN tariff is 12.9%, is able to export to the U.S. under NAFTA at an effective tariff of 0.8%. EU MFN tariffs range from about 10% to 12% for most supplier regions and countries; however, Turkey, North Africa and Eastern Europe all export at an effective 0% tariff under the trade concessions offered by the EU, and these countries have become dominant suppliers to the EU market. Only China, which has formidable cost and productivity advantages, has managed to continue increasing its exports and market share without preferential tariff treatment. According to the UNCTAD report, If average import tariffs still remain at a relatively high level, importing countries increasingly favor certain nations through preferential treatment which "alters the distribution of market shares among developing countries," [11]

Since it is likely to be many years before average MFN tariffs on clothing approach the average U.S. and EU tariffs on manufactured products (about 4%, as opposed to 12% for clothing), the duty-free access to EU and U.S. markets for African clothing can remain an important factor even after quotas and other special benefits disappear.

Additionally, as outlined in Section I, the reforms undertaken to qualify for AGOA in the near term will also help ensure West Africa's competitiveness over the longer term. The expiry of the ACT quota regime at the end of 2004 and its replacement by WTO rules in January 2005 do not mean that suddenly the U.S. and Europe will throw open their markets to unlimited imports from Africa and other developing regions. With quotas gone, Europe and North America will seek to limit imports by other means that comply with the letter, if not the spirit, of the WTO.

In order to obtain Congressional approval for AGOA, the U.S. Administration had to assure representatives and senators from textile-producing states that it would continue to protect the interests of the domestic textile and apparel industries, and to keep Congress

[11] "Tariffs Increasingly Regulating Global Clothing Market," *Emerging Textiles*, May 3, 2002

apprised of ongoing measures in that area. In an address to the Congressional Textile Committee in September 2002, U.S. Commerce Secretary Don Evans summarized actions undertaken to protect the industry during the previous year, and outlined the Administration's future intentions.[12] The three major thrusts of Administration policy are to:

- Eliminate illegal transshipments
- Crack down on trademark infringement and other violations of intellectual property rights;
- Aggressively employ trade remedies such as anti-dumping measures, safeguards and countervailing duties to counter dumping, protectionist tariffs or non-tariff barriers on U.S. exports, and subsidies given by developing country governments to their textile industries;
- Move from unilateral trade concessions such as AGOA to Free Trade Agreements that involve reciprocal opening of markets.

Among the achievements cited was the seizure by U.S. Customs of over $300 million worth of clothing products, mainly from Hong Kong and China, which violated transshipment rules. The Administration has also made representations to the WTO that it strongly opposes any weakening of antidumping (A/D) and countervailing duty rules, and making clear that A/D language agreed at Doha will not limit use of U.S. A/D laws.

The U.S. government has created an interagency textile working group, chaired by the Commerce Department, but including representatives from the departments of State, Treasury (incorporating Customs), Justice and Labor, as well as the USTR and the National Security Council. One subgroup under this working group is a Customs Textile Production Verification Team which conducts visits to overseas production facilities to investigate possible violations of IPR, Rules of Origin/transshipment, and quota restrictions. As of September 2002, U.S. Customs had completed Textile Production Verification Team visits to South Africa, Kenya, Lesotho, Mauritius, Macau, Taiwan, Hong Kong and El Salvador, and for the remainder of the year had scheduled visits to Guatemala, Panama, Nicaragua, Vietnam, and Cambodia. From May 2001 through may 2002, U.S. Customs had effected the closure of 162 factories found to be violating key import rules. A partnership between U.S. Customs and Hong Kong Customs, which could become a model for future collaboration between the U.S. and other Customs services, has resulted in the closure of 400 Hong Kong factories since 1997. The U.S., in fiscal year 2001 alone, initiated 65 illegal transshipment investigations.

Though investigations and enforcement target principally the individual companies or factories involved in violations, trade remedies can be used to block or impose punitive tariffs on imports from an entire country. The U.S. has made it clear that trade remedies are the main tool with which it will continue to protect its domestic textile industry even after the expiry of quotas. In the words of Secretary Evans, "Although developing countries are currently exempt from the prohibition on export subsidies, and many will

[12] "Report to the Congressional Textile Caucus on the Administration's Efforts on Textile Issues," U.S. Commerce Department Press releases, September 2002, www.commerce.gov

remain so for the foreseeable future, the WTO Agreement on Subsidies and Countervailing Measures provides for possible ways to address the trade distortions caused by export subsidies for countries not currently subject to the prohibition. We are continuing to explore several possible WTO strategies to address the problem of such textile subsidies."

Textile industry analysts have cited other technical barriers to trade that have been used to significant effect against India and other producers, which may become more frequently applied as quotas disappear. For example, in 1995 the U.S. invoked the Fastener Safety Quality Act against imports of woolen shirts from India, and imposed very onerous documentary requirements on the producers. More recently, the U.S. banned certain imports of women's skirts from India on grounds that the fabrics did not meet U.S. inflammability standards.[13] Current sanitary and phytosanitary standards on cotton could become more restrictive, which could be used to restrict imports of garments or fabrics produced with cotton grown in Asia or Africa.

These statements highlight some of the profound changes underway in the world textile industry. The same report points out that although sourcing decisions by US textile and apparel importers are now mainly driven by quota constraints, "many of the major importers will quickly cut in half, by late 2005 or early 2006, the number of countries from which they source textiles," meaning that many low-cost countries could face a rapid decline in their textile and clothing sectors.

Elimination of quotas means that low-cost countries like China, already the world's largest clothing exporter, can be expected to increase their share of exports to Europe and North America as quotas are eliminated. China's garment production is expected to increase by as much as 74% by 2005.[14] Strict enforcement and trade remedies may limit China's export growth to some degree, as will major importers' wish to avoid excessive dependence on a single source of product. But after 2004, importers will have few incentives to keep on diversifying their sources of supply. Instead, they are likely to try to develop more efficient regional and global supply and production chains, upgrading the efficiency, quality and flexibility of existing suppliers and linking them together in new ways using information technology. The industry will consolidate. It will involve bigger investments, higher levels of automation, bigger economies of scale, tighter inventory management and faster product development. Though labor-intensive processes will continue to be an important part of garment production for the foreseeable future, the industry as a whole will become more knowledge-intensive, with IT-based sharing of information across the entire production and supply chain.

The old model of a sweatshop taking orders over the fax machine will be replaced by much closer relationships among all participants in the production and supply chain. As the U.N. Commission on Trade and Development (UNCTAD) said in its 2002 Trade and Development Report, much of which focused on the textile industry, "Compered to

[13] "Product Strategies for a New Era: Preparing for a Non-Quota Regime," V. Katti, *Jagan [India] Institute of Management Studies Bulletin*, Winter 2001
[14] *ibid.*

traditional arm's-length transactions, outsourcing entails greater stability in business relationships and better provision of information in the form of detailed instructions and specifications."[15] For small countries with industries dominated by small and medium manufacturers, regional integration will be the only way to survive in this new environment.

Regionalization is already happening, while at the same time, integration between upstream (fabric) producers and downstream (garment) producers is on the rise. Countries like Mexico, Bangladesh and Turkey started out as labor-intensive garment manufacturing locations, but have moved upstream into fabric production.

These trends are reflected in the increasing dominance of assembly subcontracting and full-package manufacturing, which are based on the stability and closeness of business relationships mentioned in the UNCTAD report.[16]

Full-package outsourcing is practiced mainly by large retailers, which contract with a private label manufacturer to deliver a product, the manufacturer then subcontracting various parts of the production to other companies. Since 5 major retailers account for about 70% of U.S. apparel sales, a high percentage of it in private labels (e.g., Sears), this has become the dominant production model, which accounts for a significant proportion of the exports of China and Hong Kong, as well as South Korea, Taiwan, and certain other East and Southeast Asian countries. European garment sales are less concentrated than those in the U.S., though private label sales through major retailers have a very significant market share in Europe as well as in the U.S.

Assembly subcontracting is more popular with branded design manufacturers, which tend to create production networks that assemble products from imported outputs and regional production.

Assembly subcontracting for the European market has focused mainly on assembly operations in North Africa, Turkey and Eastern Europe, which import fabric from the EU and re-export the finished product. In 2004, many of the Eastern European countries involved in these operations will become full EU members and thus an internal part of a single market with over 400 million people. As incomes in the East rise as a result of EU membership, the region will lose many of its advantages as a low-cost manufacturing location, but that will take time and may be partially offset by future EU admission of Romania and Bulgaria.

Assembly subcontracting for the U.S. tends to focus mainly on the Caribbean Basin Initiative countries and Mexico, under NAFTA, though some of the more sophisticated ("upper tier") assembly operations are also performed in China. Assembly subcontracting is generally the entry-level activity for countries that, as they develop

[15] *Trade and Development Report 2002*, UNCTAD, Geneva

[16] The following discussion of full-package outsourcing and assembly subcontracting relies on sources cited above, as well as on the report "Review of Global Trade and Investment in Apparel: Implications for Africa," by Mihir Desai, MIGA, April 2002

greater skills and efficiencies of production, tend to move into higher value-added full package manufacturing. Manufacturers in Mexico, Turkey and Eastern Europe have begun to move into full-package manufacturing, which requires greater skill and organization, but is more lucrative for the supplier.

In the near term, Africa's opportunity is to be found in assembly subcontracting, since the skills and networks required for full package manufacturing do not yet exist. Even within that subsector of the industry, African companies at first will focus mainly on low and mid-tier assembly operations, for relatively fashion-insensitive items such as jeans or T-shirts, adding sufficient value to qualify the product as African under the rules of origin applied under various trade agreements, but not yet possessing the skills to perform more sophisticated operations. Africa, like the Caribbean countries, will at first be positioned in this, the most vulnerable segment of the industry.

Unlike the Caribbean countries, Africa may not stay there long. The UNCTAD report referred to the vulnerability of the CBI countries, saying that they remained concentrated in assembly, providing few wider economic benefits, and suggested that because of their small and fragmented economies and relative lack of regional integration they were likely to lose substantial market share in the post-2004 environment. Parts of Africa have already demonstrated sufficient regional integration to attract large-scale investment focused on more durable relationships.

Without detailed knowledge of the business plan for Ramatex, the Malaysian company planning a $250 million investment that will create some 18,000 new jobs over the next 10 years, it nonetheless seems clear that this is part of a long-term plan that involves not only a single plant in Namibia but an integral part of a regional and global production and supply strategy. AGOA may have served as the catalyst for this investment, but this investment does not make sense as a short term project and instead must be seen as a long-term initiative that may end up supplying Europe or even Japan as much as it may focus on the U.S. market initially.

With Senegal having attracted a substantial new investment, the signs are that several West Africa countries could follow Namibia's example. As a major cotton-producing region, West Africa offers the potential for vertical integration, producing fabric, yarn and finished garments. With sufficient regional integration, West Africa can lend itself to the economies of scale and linkages that regional integration in Southern Africa made possible for the Namibian investment.

For West Africa, AGOA is principally a way to get into the game and a way to begin to acquire the know-how needed to become and remain globally competitive over the long term. Yet so far, with the partial exception of Senegal and, possibly, Ghana, AGOA has not so far stimulated much in the way of textile industry development in the region.

III. WHY IS WEST AFRICA LAGGING BEHIND?

The relative position of West African countries and their counterparts in East and Southern Africa with respect to textile exports is no less dismaying than it is striking. In 2000, only one ECOWAS country exported more than $1 million worth of apparel to the United States. This was Ghana, whose U.S. apparel exports amounted to less than $3 million. Other ECOWAS countries, if they had any apparel exports to the U.S., counted them in the tens or hundreds of thousands of dollars, rather than in the tens or hundreds of millions of dollars, as was the case for countries such as Mauritius, Lesotho, Swaziland and South Africa, each of which exported over $100 million in apparel to the U.S., or Kenya, Zimbabwe, Madagascar and Botswana, each of which exported over $10 million.[17] Since the beginning of 2001, only Ghana has exported any apparel to the U.S. under AGOA: $34,000 in the first half of 2002. West African exports to the U.S. under the Generalized System of Preferences (GSP) or claiming no preferential tariffs are minuscule as well. Cape Verde exported nearly $1 million during the first half of 2002, Sierra Leone about $500,000, Ghana and Côte d'Ivoire each about $100,000, and sub-industrial quantities worth a few thousand or tens of thousands of dollars from a handful of other ECOWAS countries.

As discussed in Section II, this performance by ECOWAS members with regard to the U.S. market is not balanced by any tremendous success in exporting to Europe. As mentioned in Section I, ECOWAS members have benefited from a tiny fraction of the planned new investment in African apparel production, almost all of which has gone instead to countries in East and Southern Africa.

Of the 20 countries that have so far established their eligibility for AGOA textile benefits, only three are ECOWAS members.

The reasons for this disparity are not immediately clear. West Africa has an ancient textile tradition, and factories that meet a significant portion of domestic demand. West Africa is geographically closer to the United States and to Europe than the rest of Sub-Saharan Africa. Dakar is almost equidistant by sea from Miami and from Rotterdam, and less than half the distance from Durban or Mombasa to either of those ports. A "sister port" relationship between Dakar and Miami promises to reduce shipping times by 40% between West Africa and the U.S. by facilitating establishment of direct shipping links. Politically and economically, West Africa is not significantly less stable than East or Southern Africa. Though Côte d'Ivoire has recently erupted in violence, Sierra Leone has just emerged from its civil war. Nigeria has returned to democratic rule just as Zimbabwe has reverted to dictatorship. Ghana and Senegal have recently reaffirmed their commitment to democracy through genuinely fair elections, even as Kenya's government tries to override democratic processes. Though West Africa has and will continue to have economic and political crises, these are not obviously worse than those that arise and persist in parts of East and Southern Africa. AIDS, though it is a critical

[17] U.S. International Trade Commission Database

health problem in West Africa, has not made the same inroads as it has done in Southern and East Africa, while many West African governments appear to have managed the crisis much more rationally and effectively than those in Southern Africa.

Through a variety of regional and bilateral initiatives, U.S. government agencies, including Customs, the U.S. Special Trade Representative (USTR), the Trade and Development Agency (TDA) and USAID, have assisted countries throughout Africa, in both regional and single-country seminars and provision of direct assistance, to develop the capacity to enforce the various provisions of AGOA so as to obtain textile certification. A U.S. interagency group prepared and provides a model visa arrangement, certificate or origin and instruction sheet for countries wishing to achieve AGOA textile eligibility, and has provided direct implementation assistance to numerous countries, including many ECOWAS members.

Given this apparent lack of major disparities between West Africa and other regions, what then accounts for the striking disparity between the rapid development of the textile industry and apparel exports observed in East and Southern Africa, and the much slower rate of development in West Africa? The next section of this report will argue that regional integration, especially in trade and economic matters, in much of East and Southern Africa is substantially more advanced than in West Africa. Though it cannot account for all of the differences, this difference in levels of regional integration is a major contributor to this disparity.

IV. REGIONAL INTEGRATION AND WHY IT MATTERS

Regional integration matters in both the short term and the long term. In the short term, the level of regional integration can help determine whether a country can attain AGOA textile eligibility. In the long term, regional integration, as the discussion in Section II of the evolution of the world apparel industry makes clear, may be one of the major determinants of success in attracting the investment needed for African countries to build a truly sustainable and globally competitive textile industry.

To see why this is true, it is useful first to look at the current criteria the U.S. uses for granting AGOA textile eligibility. These criteria will, to a large degree, set the tone for the entire global apparel industry once the ATC has expired, and will be applied by all major importing countries or regions. In short, a country’s effort to qualify for AGOA now will help set the basis for its long-term competitiveness in the textile trade.

To obtain any AGOA eligibility a country must prove itself on a number of dimensions, most prominently a set of measures of progress towards a market economy, democracy, openness and rule of law. Several countries in Africa, among them Burkina Faso, Gambia, Liberia and Togo, have been declared ineligible for participation in AGOA for reasons of this kind. Once a country has been declared AGOA-eligible on an overall basis, it still must meet a more stringent set of standards to become textile eligible.

These textile eligibility criteria are designed to protect the U.S. market from goods illegally transshipped from another country that may not qualify for the same benefits as the ostensible country of origin. A country must implement an effective visa system capable of providing documentary proof of origin of goods exported to the U.S., and must have a system in place to prevent the use of fraudulent documentation of product origin. A country must require its producers to maintain production records going back at least five years, and must allow U.S. Customs officials to visit and inspect production facilities. Exporters must be able to document all purchases of inputs and their source, document the methods by which imported inputs and exported product were shipped, and document production processes and costs to demonstrate that the country of origin content meets the minimum 35% requirement.

The U.S. Government has provided assistance to countries to help them set up the systems needed to establish eligibility, and has provided assistance to regional groupings and individual companies in meeting the requirements. In developing countries with limited access to communications and information technology and, more importantly, a lack of regional customs and economic integration, preventing illegal transshipment is going to be difficult. In West Africa, where regional bodies and regional co-operation are less developed than in other parts of Africa, achieving necessary levels of compliance has proven more difficult than in East and Southern Africa.

The 2002 Presidential report to Congress on Sub-Saharan Africa outlined some of the reasons this might be so. In general, it suggested that regional integration was hindered by poor transport and communications infrastructure, by disparities in levels of development among countries in a region, by overlap and conflict among different regional groupings, and by policy orientations and policies. In particular, the report suggested that insufficient regional integration tends to make borders more porous, especially with regard to harmonization of Customs policies and procedures and a collaborative approach to enforcement. It may be no coincidence, therefore, that East and Southern Africa, in which most countries belong to fairly effective regional groupings, and Mauritius and Madagascar - island states with a strong degree of bilateral cooperation and integration, as well as membership in COMESA - have managed to penetrate foreign textile markets and attract textile-focused FDI more effectively than West Africa.

Infrastructure

It is hard to generalize as to the state of West Africa's physical infrastructure as compared to that of East and Southern Africa. It is clear, however, that the road and rail networks linking the countries of East and Southern Africa are, generally, more highly developed than those in West Africa. Part of this is due to British colonial dominance over the entire region, with the exception of Mozambique which, because of its geographic position, linked its entire rail network to those in neighboring South Africa, Malawi and Zimbabwe.

West Africa is more fragmented in both colonial history and transport infrastructure. The region includes former French, British and Portuguese colonies arranged with little regard for natural physical or ethnic boundaries, each of which pursued different development strategies. Even among the former French colonies, Mali was more closely linked to Senegal by geography and rail infrastructure, while Burkina Faso's infrastructure and economy are more closely linked to Côte d'Ivoire's. Even today, Burkina's main route to the sea is via the rail link to Abidjan, while Mali's is via rail to Dakar. Apart from the coastal highway, very few significant transport links exist between former French, Portuguese and British colonies in the region.

Rail and road transport, even in the post-colonial era, has remained far more integrated in East and Southern Africa than in West Africa, with major new infrastructure developments continuing to take place. These include the rehabilitation, with both rail and road links, of the Maputo Corridor; the rehabilitation of the Maputo and Beira ports; the construction of the Trans-Kalahari Railroad; the ongoing development of a rail corridor to link South Africa and Namibia. Intermodal transport is more highly developed as well. Yet this seems to have had little effect on West Africa's transport competitiveness. None of these new developments have substantially transformed transport patterns that have been in place for years, though over time the variety of transport options should lead to competition and lower prices. For now, though, transport times and costs do not vary tremendously between West Africa, East Africa and Southern Africa. For example, to ship a container from Gaborone, Botswana to New York/Newark involves 27 to 29 days: four or five days rail transport to Durban, 3 days in transit at the port, and 21 or 22 days sailing to Newark. From Nairobi, using rail via Mombasa, a container will require about 29 days. By comparison, a shipment from Ouagadougo to Newark will take 22 days: 3 days by rail to Abidjan, minimal transit time, and 19 days at sea. From Bamako to Newark will take 21 days: 5 days by rail to Dakar, minimal transit time, and 16 days at sea. The excessive transit time in Durban suggests that South African ports are no more efficient than West African ports. Although transport costs are high throughout Africa, Durban port charges are among the highest in the world

Telecommunications, as reflected in the cost of telephone connections and in Internet penetration, appear to be better in East and Southern Africa than in most of West Africa.

Telephone density, as measured in lines per 100 population, is very low throughout the continent, with few big exceptions. Lesotho, Swaziland and Namibia, in large part because of close integration with South Africa, and Botswana and Mauritius because of their small populations and high per capita incomes, have much higher rates of fixed and cellular telephone penetration than most countries elsewhere in Sub-Saharan Africa. In ECOWAS, only Gambia, Côte d'Ivoire, Senegal and Cape Verde (which has the highest teledensity in Sub-Saharan Africa apart from South Africa and Mauritius), have fixed and/or mobile teledensity levels significantly higher than the average for all of Sub-Saharan Africa. Nigeria has among the lowest rates of teledensity in the entire world, less than a fifth of that of Gambia or Senegal and half that of Kenya or Tanzania. Strangely, this has relatively little to do with the cost of telephone calls. Nigeria and Ghana, both with very low teledensity, have among the cheapest local call rates in Africa, less than $1 per hour, but so does Mauritius. Cape Verde and Côte d'Ivoire, by contrast, have local call rates more than twice as high.[18]

For Internet connectivity, the gap between East and Southern Africa on the one hand and West Africa on the other is more significant. As measured in bandwidth, in the ECOWAS region only Senegal, with 48 megabits per second (Mbps) and Nigeria, have more than 10 Mbps outgoing bandwidth.[19] Otherwise, only Ghana (4 Mbps), Côte d'Ivoire (5.1 Mbps), and Togo (2 Mbps) have anything approaching adequate bandwidth. Most of the other ECOWAS member states have far less than 1 Mbps, and several have less than 256 kilobits per second (Kbps), equivalent to the bandwidth that an average small-to-medium-sized company in the U.S. would use on its own.[20] In general, the number of Internet Service providers (ISPs) is greater in East and Southern Africa than in West Africa, while the number of subscribers relative to population is, with the exception of Ghana and Senegal (and also Nigeria, where Internet development stagnated for several years, but is now growing rapidly), far fewer than in East and Southern Africa. As business communication relies increasingly on e-mail, as e-commerce supply chains proliferate, and as the garment industry increasingly relies on the ability to send designs and other production information via the Internet, the relative lack of internet connectivity in West Africa could become a serious disadvantage.

Nevertheless, neither transport nor telecommunications infrastructure seems to be so vastly different between West Africa on the one hand, and East and Southern Africa on the other hand, as to explain the disparities in expansion of the apparel industry in the different regions. Though continued development of infrastructure and greater regional integration in these areas will have important implications for the long-term competitiveness of each country and region and for the whole of Sub-Saharan Africa, it does not appear that West Africa will need to achieve massive regional infrastructure development before it can become as competitive in textiles as East and Southern Africa.

We therefore need to look at economic and trade policies and their implementation and integration across borders to find the possible causes of the current disparity and a set of potential solutions that can be implemented in the near term.

Regional Bodies and Policy

It makes most sense to talk about regional integration of policies and their implementation in the context of a discussion of regional bodies whose purpose it is to seek closer economic integration. Though regional bodies can and often do take on missions that go far beyond economic and trade relationships into the realm of geopolitics, most effective ones have started with concrete trade and economic concerns. The European Union, for example, for all that it has changed the political relationships within Europe and between Europe and the rest of the world, began its life as a body seeking to rationalize the European coal and steel trade, and moved from there to

[18] Mike Jenkins, *African Internet Connectivity, 2001 and 2002 Indicators,* www3.sn.apc.org/africa
[19] *ibid.*
[20] *ibid.*

concrete common market arrangements, customs union and common immigration policies before seeking wider political integration.

One possible reason for the failure of the Organization for African Unity is that it focused from the beginning on pan-African political integration without first paying attention to the concrete trade and economic measures that might lead to greater political union. It is instructive that the OAU's successor, the African Union, has placed much greater emphasis on common issues of economic growth and development, in part through the NEPAD initiative. It is far easier and in the near term far more fruitful for bodies to focus on issues that can be resolved at a technical level without involving grand political themes.

There is a plethora of regional bodies in Africa, some active and some dormant, some highly effective and others less so. Many have overlapping membership and both complementary and conflicting missions and objectives. In the context of this analysis it is useful to focus on the two of most immediate concern to ECOWAS members: that is, ECOWAS itself, and WAEMU, the West African Economic and Monetary Union. At the same time, we will compare these two groupings with some of their East and Southern African counterparts: principally, COMESA (The Common Market for East and Southern Africa); SADC (the Southern African Development Community) and SACU (The Southern African Customs Union).

First, however, it is useful to examine the specific policy areas in which regional bodies can make a difference with respect to textile competitiveness in general and AGOA textile eligibility in particular.

Regional Integration and AGOA Textile Eligibility

To take the particular case first, the main area in which West Africa has lagged in obtaining AGOA eligibility and thus benefiting from the trade and investment flows that East and Southern Africa have seen is that of preventing illegal transshipment, and in fulfilling the other documentary requirements for AGOA-based textile trade. Regional integration in Customs policies and enforcement procedures could substantially increase the level of confidence U.S. Customs and the USTR have in the integrity of West African declarations of origin. Individual countries can, and often do, improve their Customs procedures on their own. Senegal, for example, has a temporary admission system for goods in transit, which was seriously abused in the past. Senegalese Customs have cracked down on such abuses and have implemented stricter controls on goods for re-export. Similarly, Ghana….

Regional Integration and Long-Term Competitiveness

In spite of the immediate benefits conferred by AGOA, most evidence suggests that the Asian companies now investing in textile and apparel capacity in Africa are seeking longer-term advantages than those conferred by the temporary quota or sourcing benefits of AGOA. Given the amounts they are investing it is clear that they have come in search of a longer-term competitive advantage that will enable their investments to generate positive returns long after all textile quotas disappear. Preferential tariffs are one element of this advantage, but they apply equally to all AGOA-eligible countries.

Regional integration in the cotton sector may ultimately prove one of the most important determinants of textile industry competitiveness for West Africa. In aggregate, West Africa, which produces 10% of the world's cotton (15% if Central African countries like Cameroon are included), is the third largest producer in the world, behind the United States and Uzbekistan. To date, however, the cotton-producing countries of West Africa have not acted in concert. In general, the cotton sector throughout the region is characterized by heavy state involvement through cotton marketing boards and other mechanisms. Many of these companies are insolvent. For example, the Compagnie Malienne de Développement de Textiles (CMDT), is already in effective bankruptcy, due to poor planning, bad accountancy and levels of corruption within senior management that have led to several jailings.[21]

More importantly, however, is that the major West African producers – Mali, Burkina Faso and Benin – depend on cotton for as much as 80% of their export revenues. This makes them far more vulnerable to world prices than, say, U.S. producers, which sell most of their production on the domestic market. West Africa is possibly the cheapest major producer in the world, with farm gate prices, at around $0.21 per pound, among the lowest in the world. But current cotton prices, at around $0.45 per pound, are at their lowest point in real terms since the 1930s. Even in Benin, which is probably the most efficient producer in the region, total production costs average $0.51 per pound. The gap between production costs and world prices can be attributed largely to domestic cotton subsidies in other parts of the world. According to the International Cotton Advisory Committee, Europe subsidizes its cotton producers at more than double the world market price, while other producing countries, including the U.S., Brazil, Turkey, China and Egypt, provide subsidies almost as generous. Globally, cotton producers receive some $4.8 billion annually in subsidies. Though West Africa has, as the ICAC study indicates, one of the most competitive cotton sectors in the world. "The region by international standards produces good-quality cotton, high average crop yields, and high ginning ratios. Local environmental conditions, cheap labor and a good organization of the sector speak for West Africa's competitiveness. The region however cannot compete on other regions' subsidies level."[22]

Even with greater regional integration, West African producers could do little to raise world prices. West African countries can, however, reduce their dependence on world cotton prices, with regional integration as an important implement for doing so.

Regional integration could steer countries away from the export of primary materials (cotton lint) by creating conditions that lend themselves to a much larger regional demand for cotton, thereby contributing to long-term textile industry competitiveness. In

[21] "Threat to Cotton Sector," *Africa Analysis*, 17 October 2002

[22] "West's Cotton Subsidies Cost Africa US$ Hundreds of Millions," Afrol.com news, July 15, 2002, quoting "'Production and Trade Policies Affecting the Cotton Industry," International Cotton Advisory Center

a virtuous circle, regional integration in textile and garment production could increase domestic regional demand for cotton, which in turn could increase efficiency in cotton production and reduce the vulnerability of producer countries to world markets and excessive subsidies paid to producers in other countries. More competitive cotton production could attract new investment in textile production, which would lead to greater global competitiveness in apparel manufacturing.

Central and West African agriculture ministers, meeting earlier this year, explicitly recognized this by calling for greater regional integration and greater efforts to encourage textile production.[23] Discussing the various options available for reform of the cotton sector, the ministers opted for an integrated, liberalized, regionalized sector. They also called for the establishment of a regional association of cotton producing companies to give greater voice to the private sector in establishing development policies and strategies.

Some of these developments were already occurring, partly in response to the deteriorating terms of trade facing West African producers. Senegal, for example, in 1999 began a process of privatizing its state cotton company, starting by ceding 30% of the company to farmers' associations with plans to sell further stakes to employees, the public and a strategic investor.[24] In June 2000, Benin ended the monopoly previously exercised by the state-owned Société Nationale pour la Promotion Agricole, which controlled all of the sector's operations, particularly cottonseed purchasing, agricultural credit, fiber manufacturing, and marketing, and opened the sector to greater private sector involvement.[25] In Togo, the parastatal ginning company was restructured to return 50% of profits to farmers, while its monopoly was ended. [26] Côte d'Ivoire has also privatized its cotton ginning company.[27] Privatization and commercialization of the cotton sector and operators in the sector is clearly one way to increase regional integration since operators in a liberalized and market-oriented sector will be freer than state-owned monopolies to establish regional cross-border business relationships.

V. EFFECTIVENESS OF REGIONAL BODIES

The President's report to Congress reviewed some of the main regional bodies in Africa and provided an assessment of their relative contributions to regional integration. The report concluded that COMESA was by far the most effective of these regional groupings and that ECOWAS was one of the least effective.

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[23] Mémorandum sur la Concertation des Ministres de l'Agriculture de l'Afrique de l'Ouest et du Centre sur la Filière Coton, Abidjan, 25-26 June 2002.
[24] "Cotton, Breaking up an 'Integrated' Sector?" *Africa Recovery*, The United Nations, April 2002
[25] "Review of the Benin Cotton Sector," Commodity Risk Management Group, http://www.itf-commrisk.org/DisplayContent.asp?ID=113
[26] "Togo: Economic Trends and Outlook," U.S. Commerce Department, National Trade Data Bank, September 3, 1999.
[27] "Côte d'Ivoire Agriculture, *Africa Business Direct*, 2000, http://www.africabusinessdirect.com/pebble.asp?relid=2313

COMESA

One of the reasons stated for COMESA's success is that it has focused from the outset almost exclusively on trade liberalization. The COMESA Charter defines the organization's mission and objectives as follows:

"The aims and objectives of Comesa as defined in the Treaty are to facilitate the removal of structural and institutional weaknesses of member states so that they are able to attain collective and sustained development.

"Among other things, COMESA member states have agreed on the need to create and maintain:-

- A full free trade area guaranteeing the free movement of goods and services produced within COMESA and the removal of all tariffs and non-tariff barriers.
- A customs union under which goods and services imported from non-COMESA countries will attract an agreed single tariff in all COMESA states.
- Free movement of capital and investment supported by the adoption of common investment practices so as to create a more favourable investment climate for the COMESA region
- The adoption of common visa arrangements, including the right of establishment leading eventually to the free movement of bona fide persons."[28]

Half of COMESA's 20 members have already ratified a free trade agreement reducing internal tariffs to zero among members, with other members expected to join soon in preparation for declaration of a Customs Union in 2004. Together with the EU in its next round of enlargement, this will be the largest Customs Union in the world, with over 400 million people. COMESA plans to achieve full monetary union and free movement of people by 2025. This is a more achievable goal than some of the pan-Africanist visions espoused by other groups, primarily because it will be the culmination of a process that began with more modest and measurable goals closely linked to sustainable economic development.

COMESA and its members have collaborated far more closely than other regional African bodies in the areas of Customs procedures, simplifying and harmonizing rules of origin, introducing automated Customs declarations and transit systems, and relying on common trade documents throughout the region. COMESA as a body has cooperated with and received technical assistance from UNCTAD and its branch dealing with the Automated Systems for Customs Data (ASYCUDA), as well as from USAID, U.S. Customs and the USTR on rules of origin, development of regional approaches to investment barriers, and telecommunications harmonization. Other assistance includes helping COMESA increase its cooperation and harmonization with SADC, which has overlapping though not identical membership. In October 2001 the USTR signed a Trade and Investment Framework Agreement (TIFA) with COMESA, establishing a formal

[28] www.comesa.org

mechanism for regular consultation on trade and investment matters between the U.S. and COMESA.

Automated transit systems (part of the overall ASYCUDA system) can be a key element in controlling illegal transshipments and hence very important to major textile importers that do not wish to see their preferential trade agreements violated by ineligible countries. The ASYCUDA++ 1.17 transit model was, in fact, developed to meet the needs of COMESA for a bonding system for warehouses and cargo in transit, and has been implemented in several COMESA countries.

Almost all of the major Sub-Saharan beneficiaries of AGOA are members of COMESA. Madagascar, Mauritius, Malawi, Kenya, Namibia, Uganda, Zambia and Swaziland are all COMESA members. Only South Africa, Lesotho and Botswana, which are themselves members of the Southern African Customs Union (SACU) are significant non-COMESA AGOA beneficiaries.

SACU

The Southern African Customs Union is the oldest Customs Union in the world, founded in 1910, counting a population of about 50 million and accounting for about 40% of the total GDP of Sub-Saharan Africa. It is the leading export region in Africa and the leading destination for FDI. Anchored by the huge South African economy, the largest on the continent, SACU also includes Botswana, Namibia, Lesotho and Swaziland, all of which, except for Botswana, are also members of the Rand Monetary Area, using the South African Rand as a common currency. One of SACU's strengths is that it has remained apolitical since its inception and has instead focused on practical Customs and economic integration issues. Even during the apartheid era in South Africa, when the other SACU members (Namibia was then under direct South African rule) were among the frontline states in the anti-apartheid struggle, SACU itself was able to stick to technical trade issues to the benefit of all its members.

SACU and the U.S. have begun a process of negotiating a Free Trade Agreement with the U.S., which would complement the EU - South Africa FTA ratified in 2000. Because of the Customs Union, the other SACU members became de facto members of the South Africa-EU agreement, giving them the same preferential access to the EU market, as well as opening their markets to imports from the EU.

Analysis of the projected effects of the EU agreement on SACU economies is instructive. Though Botswana, Lesotho, Namibia and Swaziland may lose some revenue from the lowered tariffs on imports from the EU, in the longer term the agreement will increase the competitiveness of industries in all SACU member countries. Revenue losses are expected to range from 5.3% for Botswana to 13.9% for Swaziland. However, full implementation of the SACU tariff reductions on imports from the EU will be phased in over a 12-year period.[29] This will provide a powerful incentive to governments to

[29] "Free trade between South Africa and the EU: a raw deal for the BLNS countries?" K. Mbekeani, *Global Dialogue* Volume 4, 3 December 1999

undertake essential fiscal reforms and widen the tax base, while at the same time substantially mitigating the immediate adverse revenue effects.

Certain industries may also be affected as greater efficiencies on the part of EU manufacturers will increase competitive pressures on SACU companies. The EU has promised a combination of technical assistance and direct budgetary support to offset some of the negative potential consequences of increased competitive pressures on local industries. The long-term effects should include greater efficiency and greater competitiveness for SACU-region companies that have been obliged and helped to restructure. Similar costs and benefits should accrue from a SACU-U.S. FTA, in which the further opening of SACU markets to U.S. exports, combined with increased technical assistance from the U.S., will also increase the competitiveness of regional manufacturers. One important benefit of FTAs as opposed to unilateral preferential market access agreements is that they tend to “lock in” benefits over a longer term, thus sending an important signal to potential investors.

ECOWAS

ECOWAS, in contrast to COMESA and SACU, has always played an active political role but has achieved less in the way of economic integration. The political role may, to a degree, have been forced on the organization, as wars and political crises in the region have demanded political attention and, often, armed intervention. There is little doubt, however, that the political role and mandate of ECOWAS have overshadowed trade liberalization and other trade and investment issues. Nevertheless, ECOWAS has shown a new determination to focus on economic and trade issues, of which the current conference is but one manifestation. It is now an explicit goal of ECOWAS to become a single regional market, incorporating common external tariffs and harmonized economic policies.

The U.S. has supported regional integration in ECOWAS through the USAID West Africa Regional Program in Bamako, focusing on areas such as infrastructure integration in energy and strengthening the trade capacity of the ECOWAS secretariat. Among the most important initiatives involves moves towards greater integration between ECOWAS and the West African Economic and Monetary Union (WAEMU) and expanding the Common External Tariff (CET) initiated by WAEMU in 2000 to encompass the entire ECOWAS region.

WAEMU

WAEMU is one of the core institutions of the CFA franc zone, with eight members sharing a common currency and language (except for Guinea-Bissau, recently admitted, where Portuguese is spoken). The CET provides for a maximum 22% tariff on imports into the region, though adherence is not uniform among all countries. WAEMU has focused mainly on macroeconomic policy issues, aiming at convergence among member states, and has introduced a regional accounting system and the legal and regulatory basis for a regional banking system. Trade among WAEMU members has grown very little in spite of these positive developments.

Alassane Ouattara, while he was Deputy Managing Director of the IMF, suggested some of the possible reasons for this. In a 1998 statement to the French Economic and Social Council he said:

> "Savers and potential investors are not yet convinced of the direction and sustainability of economic policy. Hesitancy or reluctance to carry out key measures, such as privatization or the elimination of special exemptions, raises the perception that the government's commitment to the spirit of the adjustment program may be less than whole-hearted and thus susceptible to setbacks or delays when difficult decisions must be made.
>
> "The uncertainty surrounding **the legal and regulatory framework** for business activity likewise raises the perception of the risk associated with investment. Property rights and contracts have not yet been enforced impartially, opening the door to corruption. Commercial law is often woefully out of date, and even where appropriate legislation exists, the inadequate level of resources devoted to the functioning of the judicial system means that the legislation is often applied arbitrarily and unevenly, if at all.
>
> "Closely related to this is the problem of **economic management capacity** and administrative or bureaucratic red tape. In a number of African countries, public employees are too numerous to permit civil services to be efficient or to adapt to ever-changing circumstances and requirements. Nominal wage restraint has been an important part of the stabilization effort since the devaluation, but it has also made it more difficult for WAEMU governments to recruit and retain the skilled workers they need to formulate and implement their policies effectively.
>
> "Private investment is discouraged by **the absence of an appropriate economic infrastructure and the availability of well-trained affordable labor**. A fiscal consolidation policy based on compressing essential investment spending or reducing outlays for health and education is unsustainable over the long run, and sends the wrong signal to potential investors about a government's priorities."[30]

Ouattara stressed the importance of regional integration as one of the keyways in which the small economies of West Africa could achieve, through coordination, an economic importance collectively that none could achieve individually. He highlighted the necessity for a common investment code, a common budgetary nomenclature, and harmonization of budgetary and tax policies, leading to the free movement of goods, services, and people throughout the Union.

The question for this report is the degree to which these goals can be achieved within the current framework of ECOWAS and WAEMU, and how long it will take for such reforms to generate measurable effects on the competitiveness of the textile industry in the region.

[30] "The West African Economic and Monetary Union (WAEMU)
Facing the Challenges of the Future," A. Ouattara, International Monetary Fund, June 30, 1998

The Agriculture Ministers of the WAEMU states, meeting earlier this year, developed an agenda for increasing the competitiveness of the cotton sector in West Africa which, in spite of its significance to the region and in international cotton markets, is faced with falling international prices, a lack of domestic or regional value added, and a need for substantial reform and restructuring of agricultural policies in general. Meeting in Lomé in March and again in Abidjan in June, and with the support of the African Development Bank and in concert with other West and Central African countries, they agreed on several key initiatives under the overarching theme of regional liberalization and integration.[31]

They agreed to undertake regional cooperation in the areas of:

- improvement of the quality of West African cotton through establishment of a regional technical center of excellence and creation of a regional database and information system;
- reduction of transport and finance costs;
- increased mechanization of the cotton sector;
- replacement of national purchasing monopolies by a regional, market-oriented system;
- incentives to increase value added in the region, developing a textile industry rather than exporting 90% of total production as lint;
- development of a regional information system for cotton producers and buyers;
- developing and promoting common interests of cotton producing countries in the region in bilateral negotiations under the WTO framework.

These developments are an essential part of the process of regional integration and enhancement of the region's competitiveness in textiles, though their effect are not likely to be felt in international textile and apparel markets or by regionally-based textile companies for some years to come. Nevertheless, WAEMU is potentially the best vehicle for achieving policy coordination in West Africa, especially to the extent that WAEMU and ECOWAS can themselves achieve closer integration. The U.S. Government appears to share this view. The USTR and other U.S. Government agencies will host a technical and policy symposium in Washington for WAEMU commissioners and member country trade and finance ministers in June 2002. The symposium included technical assistance and consultations on policy reforms and initiatives to realize WAEMU's goal of full economic integration, and measures to promote trade and investment between the U.S. and WAEMU countries. USTR also concluded a regional TIFA with WAEMU in April 2002, establishing a new U.S.-WAEMU Council on Trade and Investment. According to the USTR, this TIFA is already helping to strengthen trade and investment relations between the United States and WAEMU.

[31] Réunions de Concertation des Ministres Chargés de l'agriculture des Etats Membres de L'UEMOA et de la Conférence des Ministres de l'Agriculture de l'Afrique de l'Ouest et du Centre sur la Filière Coton, Abidjan du 24 au 26 Juin 2002

Though these developments in no way imply that the U.S. has neglected ECOWAS as an organization, they do suggest that because of its greater focus on technical economic and trade issues, WAEMU may lead the way in regional integration in trade and investment matters.

VI. THE ROLE OF THE PRIVATE SECTOR

So far this report has focused almost exclusively on the role that government and public institutions can and must play in creating the necessary conditions for a more rapid and sustainable development of the textile sector in West Africa. And it is true that many of the necessary and urgent measures must be taken by national governments and/or regional bodies. Only a national government can put in place the necessary Customs legislation and policies, and establish and implement enforcement procedures required to achieve AGOA textile eligibility. Only regional bodies, representing the governments of member states, can institute the kinds of regional cooperation and harmonization of policies and procedures required to transform fragmented national industries and markets into large and integrated regional ones.

But individual companies and business associations have an important role to play as well. Michael Porter, in his seminal analysis of industrial competitiveness,[32] identified industrial clusters as the key to successful development and identified a cluster as an array of linked industries and other entities important to competition. They could include, for example, suppliers of product inputs such as intermediate goods or product components; machinery supply and service; logistics and communications services; packaging; legal and accounting services, and much more. Clusters, as defined by Porter, encompass not only the primary industry (e.g., apparel manufacturing) but also upstream and downstream links to suppliers and customers and laterally to producers manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Porter defined a cluster's boundaries as encompassing those linkages and complementarities across industries and institutions that are most important to competition, while excluding those that are peripheral. Thus, education, complementary or related skills, availability of physical inputs, infrastructure and the policy environment can all be considered integral parts of a cluster. According to Porter, a key feature of successful clusters is that they promote both competition and cooperation. Though firms may compete intensely to win and retain customers, they may also cooperate in areas of mutual interest and benefit as, for example, in industry associations.

Though Porter focused on the development of clusters within a single country, the main tenets of his argument can apply equally to regions such as West Africa. Indeed, for smaller countries regional integration and cross-border cooperation may be the only way to develop successful clusters.

[32] *The Competitive Advantage of Nations*, M. Porter, The Free Press, New York, 1990

Porter identifies four main determinants of a country's success in competing internationally in a given industry:

1) Firm strategy, structure and rivalry (the conditions in the nation governing how companies are created, organized, and managed, and nature of domestic rivalry)
2) Factor conditions (the nation's position in factors of production, such as skilled labor or infrastructure, capital and financial resources, all necessary for firms to compete in a given industry
3) Demand conditions (the nature of domestic demand for the industry's product or service)
4) Related and Supporting Industries (the presence or absence in the nation of supplier industries that are not only domestically competitive but have the potential to be competitive internationally)

Each of these principles is equally applicable to a region as to an individual state. Harmonization of company law and competition law among the countries in West Africa can improve the conditions under which companies operate and cooperate and compete with one another. In a region such as West Africa, factors of production are unequally distributed. Some countries have better or cheaper transport and communications infrastructure or water and energy availability and cost. Other countries may have greater agricultural (i.e., cotton-growing) potential, others an advantage in low-cost labor, and others still a more developed financial infrastructure or educational system or industrial base.

Taken as a region, the countries of West Africa are jointly much more likely to have or develop competitive factor conditions than they are individually. Regional integration creates a large market where previously there were many small markets. As Ouattara, cited above, pointed out, the countries of WAEMU together constitute a region with a population 90% of Nigeria's. ECOWAS and WAEMU together make up a market with about 250 million people – a huge number by any standard. Though domestic demand for the region's textile production will never approach the level of potential export demand, it can, in aggregate, contribute to the overall competitiveness of the industry. Just as factor conditions in West Africa as a region are likely to be far more impressive than in any individual country, so too can supporting and related industries, when taken regionally, be far greater and more diverse than on a national basis. Moreover, the ability of suppliers to supply a huge and integrated market will not only cause existing producers to grow, but will also encourage development of new supply and support industries.

As the discussion of the cotton sector in Section III illustrates, a number of West African countries possess globally competitive cotton producers, which could increase their competitiveness by accelerating regional integration in the sector. When combined with other regional advantages in garment manufacturing, West Africa has many of the conditions necessary to establish a globally competitive textile sector. Regional integration, however, is a necessary condition for this to occur.

On the face of it, many of the conditions for cluster success described by Porter depend on government. Harmonization of laws, reduction or elimination of internal tariffs, development of regional financial and physical infrastructure and many other key developments all require governments, acting individually or through regional bodies, to play a leading role.

But, as Porter points out, the key feature of clusters is companies competing and cooperating with one another. He points out that clusters, *per se* are not competitive but that it is the firms themselves that become more competitive by virtue of participating in a particular cluster. While governments can create the conditions for this to happen, companies themselves play a determining role. The do so in two ways: by upgrading their own skills and technology through cooperation with other firms internal or external to the nation or region, and by engaging with governments to obtain the conditions they need in order to flourish.

A West African regional textile or apparel industry association, which could include supply and related industries as well, could constitute a voice within ECOWAS and or WAEMU, as well as in discussions with individual national governments, demanding the focused regional reforms and cooperation that the industry needs. Too often, and with some justification, business associations are seen as demanding special concessions or benefits, from lower taxes to protection from imports. If a regional industry association were to focus on regional trade policy integration issues, such as those discussed throughout this report, it could be viewed as much more than another special interest pleading for special favors. Given that regional integration will benefit far more than just the textile industry, industrial associations and/or exporters associations could form regional groupings to lobby for policy reform.

The region's Agriculture Ministers themselves called for establishment of a regional association of cotton producers which, in concert with a regional textile industry association, could bring about real and rapid progress towards development of the cluster.

Such regional associations could also institute greater self-governance of the industry, setting voluntary regional standards that would make the entire region more attractive to foreign investors and customers. Such associations, possibly in collaboration with regional bodies or national trade and investment promotion bodies, and possibly with some donor support, could undertake regional promotion initiatives. Presenting West Africa as a place to do business, and emphasizing the regional synergies that exist or will soon exist, could be far more attractive to potential investors, not to mention far more cost effective, than a plethora of individual countries each promoting its own unique virtues.

Regional associations could also be a setting in which cross-border alliances between companies are forged, even in advance of full regional integration. Two or three or more companies setting up their own cross-border production, supply and distribution chains and alliances could allow them to achieve significant growth in domestic or international markets, as well as serving as a showcase to potential foreign investors of some of the potential of the region to integrate into global supply chains.

VII. CONCLUSIONS

The world is changing for textile and apparel manufacturers everywhere. The introduction of AGOA and the impending abolition of the system of national quotas that has dictated apparel investment and sourcing decisions for the past 30 years are just tow of the most prominent developments that over the next two to five years will leave no segment of the industry and no individual company untouched, in Africa as in the rest of the world.

African countries are not excluded from these developments. They can benefit from some of the changes in the structure of the global industry, though these changes also represent significant potential threats. The dominance of countries like China can only increase as quotas disappear, while the integration of East European countries, with their low-cost textile industries, into the EU within the next two years will also increase their share of the global textile trade.

For Africa, AGOA represents an immediate opportunity to take advantage of the two remaining years of quotas and to benefit from quota-free and duty-free entry into the U.S. market. This will help to establish a base from which African companies can develop a longer-term competitive advantage and become integrated into global production and supply chains supplying not only the U.S. market but the expanding EU market as well. African countries that do not get into the game via AGOA during the next two years will subsequently find it much more difficult, if not impossible, to develop any kind of presence in international textile markets. The rapid growth in clothing exports from several African countries since AGOA was implemented in early 2001 is evidence that many African countries are responding aggressively and successfully to this challenge. The massive growth in planned new foreign investment in Africa is evidence that the global industry also takes this opportunity seriously, and that they are interested as much in Africa's long-term potential as in a short-term boost in sales.

The rapid growth in AGOA-related export sales and the increase in FDI in African textile production has so far been confined almost entirely to East and Southern Africa. This report suggests that this phenomenon is attributable mainly to greater regional integration in the SACU and COMESA regions than in West Africa. Though infrastructure quality and cost may be somewhat better in East and Southern Africa than in West Africa, this report identifies regional integration in trade and investment policies and Customs operations as principal causes of this disparity. It identifies explicit initiatives in regional trade policy and Customs integration as key factors in the superior performance of the COMESA and SACU regions in attracting textile-related FDI.

Of the two regional bodies concerned with economic and trade matters in West Africa, the West African Economic and Monetary Union (WAEMU) appears to have a more focused approach to economic and trade matters than the Economic Community of West African States (ECOWAS), and thus appears somewhat better equipped to achieve the regional harmonization in trade and business regulation and Customs matters that is necessary for West African countries to become competitive in the global textile industry. Ideally, WAEMU and ECOWAS will achieve greater integration, and will focus more on the technical trade and economic issues than on grander political themes.

Though policy reform cannot happen without government action at a national and regional level, there is much that companies in the West African textile industry can do in the way of lobbying at a national and regional level for policy change, in jointly marketing West Africa as a destination for textile investment and outsourcing, and in creating cross-border firm-to-firm and association-to-association relationships that can form the basis for an internationally competitive regional textile cluster that could eventually integrate upstream cotton production with textile manufacturing and garment manufacturing in collaboration with international companies.

As a first step, the companies in the region, at the level of the textile industry and cotton producers, or even more broadly for the manufacturing or export sector, could develop regional bodies to lobby regional government groups such as WAEMU and ECOWAS and national governments to move rapidly towards full regional integration in trade and investment matters. These bodies could also develop joint strategies, in cooperation with national governments and regional bodies, to promote investment in the region, thus helping to build and secure West Africa's place in the global textile industry of the future.

ANNEX

MEMBERSHIP OF REGIONAL GROUPS

COMESA

Angola
Burundi
Comoros
D.R. Congo
Egypt
Eritrea
Ethiopia
Kenya
Madagascar
Malawi
Mauritius
Namibia
Rwanda
Seychelles
Sudan
Swaziland
Uganda
Namibia
Zambia
Zimbabwe

ECOWAS

Benin
Burkina Faso
Cape Verde
Côte d'Ivoire
Gambia
Ghana
Guinea
Guinea-Bissau
Liberia
Mali
Niger
Nigeria
Senegal
Sierra Leone

Togo

SACU

Botswana
Lesotho
Namibia
South Africa
Swaziland

WAEMU

Benin
Burkina Faso
Guinea
Guinea-Bissau
Mali
Niger
Senegal
Togo